



Commonwealth of Massachusetts

Department of Revenue

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2001 Massachusetts Combined Corporation Excise Return **Form 355C**

Schedules and Instructions

General Information

This booklet contains Form 355C and most schedules needed to complete your Massachusetts corporation excise return. This booklet also includes an Application for Extension of Time to File, Form 355-7004.

General information regarding combined returns may be obtained in Massachusetts Regulation 830 CMR 63.32B.1.

Major Tax Law Changes for 2001

Note: Beginning in tax year 2001, Form 355C, Massachusetts Combined Corporation Excise Return, replaces Form 355C-A, Massachusetts Combined Corporation Excise Return and Form 355C-B, Massachusetts Combined Corporate Excise Return. Taxpayers will now indicate if they are a domestic or foreign taxpayer in the registration area of the return.

Credit Recapture. Placement of the credit recapture line for the Investment Tax Credit, Economic Opportunity Area Credit, and Brownfields Credit has changed. The repositioning of this line allows the taxpayer to add the amount of credit being recaptured to the current year's excise. Current year credits can then be used to offset the total excise due which will include the recapture amount. All statutory limitations on any credits being used to offset this amount still apply.

For further information, see Department of Revenue Directive 01-9.

Low-Income Housing Credit. A new Low-Income Housing Credit is available beginning in tax year 2001. This credit is administered through the Massachusetts Department of Housing and Community Development (DHCD). The low-income housing credit is available to taxpayers that claim a federal credit for the construction or development of low-income housing. The state credit is taken over five years, and the amount of credit a taxpayer may claim for a qualified Massachusetts project is allocated by the DHCD, and is based on a total pool of money awarded to the Commonwealth. In order to claim the credit, a copy of the eligibility statement issued by DHCD must be attached to the return.

Who Must File as a Member of a Combined Group?

Two or more corporations, domestic or foreign, which participate in the filing of a consolidated return of income to the U.S. Government, may elect to file a combined return for the purpose of reporting their net income in Massachusetts. After the election to file a Massachusetts combined return is made, a combined return must be filed for each subsequent year, unless and until the members receive written approval from the Commissioner to file separate returns. This approval will be granted only for a valid business purpose other than the reduction of tax.

Each member subject to the Massachusetts corporate excise must be included in the combined return. A corporation is subject to the Massachusetts excise when any of the following conditions are met:

- the corporation actually does business within the Commonwealth;
- the corporation exercises its charter within the Commonwealth;
- the corporation owns or uses any part of its capital, plant or other property in the Commonwealth; or

- the corporation owns and/or rents real or tangible personal property as a lessor in Massachusetts even without having a usual place of business here.

Corporations which must file and pay corporate excise include any corporation which:

- is organized under, or subject to, Chapters 156, 156A, 156B or 180 of Massachusetts General Laws (MGL); or
- has privileges, powers, rights or immunities not possessed by individuals or partnerships.

The following corporations are not obligated to file:

- corporations organized under the provision of section 10 of Chapter 157; or
- corporations exempt from taxation under the provisions of Section 501 of the federal IRC.

How Does a Corporation Elect to be a Member of a Combined Group?

Each corporation makes the election to be a member of a combined group by filing Form 355C. The election to be a member of a combined group is made by the responsible corporate officer when signing the return. The election must be made by the due date of the corporate excise return or by the extended due date, if applicable.

What Are the Filing Requirements?

- Corporations in an affiliated group electing to file a combined return should file their returns together. If an extension of time is required for one or more of the corporations, the extension should be filed for the entire combined group.
- Each corporation must fill out Form 355C. Corporations must follow the guidelines in Technical Information Release (TIR) 95-8 if filing reproductions of tax forms and schedules.
- The affiliated group must designate a principal reporting corporation for Massachusetts tax purposes.

Note: Under Massachusetts law, all businesses registered as corporations to do business in the Commonwealth are required to file an Annual Report form with the Secretary of State on or before the 15th day of the third month after the close of their fiscal year. The annual filing fee is \$85. Annual Report forms can be obtained by calling (617) 727-9440. A late fee of \$25 will be assessed to any report which is filed late. For further information on this requirement, refer to MGL Ch. 156B, sec. 109 and Ch. 181, sec. 4 or call the Secretary of State's Corporate Information Line at (617) 727-9640.

What is the Principal Reporting Corporation?

The principal reporting corporation is the corporation upon whose return the income of a combined group is reported. For processing reasons, the combined group is encouraged to use the same principal reporting corporation each year. In most cases this will be the parent corporation of the federal consolidated group. However, in cases where the parent does not have taxable nexus in Massachusetts, another affiliate or subsidiary should be designated as the principal reporting corporation.

What Are the Responsibilities of the Principal Reporting Corporation?

The principal reporting corporation must complete Form 355C, including Schedules A, B, C or D, and any other pertinent schedules. The principal reporting corporation must also complete Schedule E, Schedule CG, and, if applicable, Schedule F, for each member of the combined group. If more space is needed for corporations in the combined group, attach an additional schedule. Attachments which do not meet the form reproduction guidelines of TIR 95-8 are not sufficient.

An exact copy of all pages of U.S. Form 1120, as filed, must also be attached with all applicable schedules and forms required to substantiate the Massachusetts excise. Form 1120 should be attached to the back of the Massachusetts return.

How Does a Principal Reporting Corporation Compute the Corporate Excise?

Taxable income must be determined and apportioned separately for each affiliated corporation to arrive at the group's net income subject to tax. The principal reporting corporation computes its excise on the combined group's net income subject to tax, along with its own net worth or tangible property measure of the excise.

What Are the Responsibilities of the Affiliate or Subsidiary Corporations?

Each affiliate or subsidiary corporation must:

- File a Massachusetts Form 355C, completely filling out Schedules A, B, C or D, and any other pertinent schedules. Affiliate or subsidiary corporations should not complete Schedules E or F. Attachments which do not meet the form reproduction guidelines of TIR 95-8 are not sufficient; and
- Attach a copy of the principal reporting corporation's Schedule CG to the front of the return.

How Does an Affiliate or Subsidiary Compute its Corporate Excise?

Affiliates or subsidiaries should enter no amount in line 3 of the excise calculation of Form 355C. Each affiliate or subsidiary must calculate its individual tangible property or net worth measure of the excise. The income measure of the excise for the combined group is calculated and reported by the principal reporting corporation only. For further information, refer to the excise calculation instructions in this booklet.

Under no circumstance may an affiliate or subsidiary corporation pay less than the minimum excise of \$456.

What Is Nexus for Massachusetts Corporate Excise Purposes?

A corporation that owns or uses any part of its capital or other property, exercises or continues its charter or is qualified to, or is actually doing business in Massachusetts has nexus with the Commonwealth and must pay a corporate excise. The term "doing business" as defined in MGL Ch. 63, sec. 39 includes:

- the maintenance of a place of business;
- the employment of labor;
- the buying, selling or procuring of services or property;

- the execution of contracts;
- the exercise or enforcement of contract rights; and
- each and every act, power, right, privilege, or immunity exercised or enjoyed in the Commonwealth, as an incident to or by virtue of the powers and privileges acquired by the nature of such organizations, as well as, the buying, selling or procuring of services or property.

Public Law (PL) 86-272 excludes from state net income-based taxation those interstate activities constituting mere solicitation of orders for sales of tangible personal property filled by shipment or delivery from a point outside Massachusetts after orders are sent outside the state for approval or rejection (15 USC sec. 381(a)).

The following are activities that ordinarily fall within the scope of "solicitation" under PL 86-272:

- activities including advertising related to generating retail demand for the products of a manufacturer or distributor by promoting the products to retailers who order the products from a wholesaler or other middleman;
- carrying samples only for display or for distribution without charge or other consideration;
- owning or furnishing automobiles to sales representatives, provided that the vehicles are used exclusively for solicitation purposes;
- passing inquiries and complaints on to home office;
- incidental and minor advertising;
- checking customers' inventories for reorder only;
- maintaining a sample or display area for an aggregate of fourteen calendar days or less during the tax year, provided that no sales or other activities inconsistent with solicitation take place;
- soliciting of sales by an in-state resident representative who maintains no in-state sales office or place of business; and
- training or holding periodic meetings of sales representatives.

For further information on corporate nexus, refer to Regulation 830 CMR 63.39.1.

What Are the Differences Between the Massachusetts Corporate Excise and the Federal Internal Revenue Code (IRC)?

Gross income for corporate excise purposes is the same as that defined under the U.S. IRC, as amended and in effect for the taxable year, with the following additions:

- interest from the bonds, notes and evidences of indebtedness of any state, including Massachusetts.

Net income is gross income less the deductions, but not the credits, allowable under the U.S. IRC. The following deductions, however, are not allowed:

- dividends received (See Schedule E-1 instructions); and
- taxes on or measured by income, franchise taxes measured by net income, franchise taxes for the privilege of doing business and capital stock taxes imposed by any state or U.S. territory.

The deduction for losses sustained in other taxable years is allowed subject to certain restrictions. See Schedule E-2 for further information.

Modifications to each corporation's separate taxable income, generally including the eliminations and deferrals listed in Treasury Reg. Sec. 1.1502, are not recognized in Massachusetts. The net income amount for each corporation should, if necessary, be adjusted to reverse any such modifications. (See Schedule E, Part 1 instructions.)

If the corporation is the parent of a wholly-owned DISC, the federal net income of the parent shall be reported to Massachusetts with no allocation of income, deductions, assets or liabilities made to the DISC. The DISC income, which must be included in the parent's return, must be for the same taxable year or the taxable year immediately following the close of the parent's taxable year. DISCs which are not wholly-owned, either directly or indirectly, are taxable as regular business corporations.

Massachusetts generally adopts the IRC treatment of transactions between FSCs and shareholder corporations. For additional information see 830 CMR 63.38G.2.

Are There Special Tax Credits Available in Massachusetts?

Yes. Massachusetts offers several special credits and deductions to corporations.

Under MGL Ch. 63, sec. 32C, a corporation's credits may not offset more than 50% of its excise. Any credits not utilized as a result of this provision may be carried over for an unlimited number of years. This provision does not apply to the Research Credit, the Harbor Maintenance Tax Credit, Brownfields Credit, Low-Income Housing Credit and the Full Employment Credit.

Investment Tax Credit

Manufacturing corporations and corporations engaged primarily in research and development, agriculture or commercial fishing are allowed a credit of 3% of the cost of depreciable real and tangible property. Such property must have a useful life of four years or more or a recovery period of three years or more. The property must be used and located in Massachusetts on the last day of the taxable year. A corporation cannot take the credit on property which it leases to another. A corporation can take the credit on property which it leases from another (for property leased and placed in service on or after July 1, 1994). Generally, eligible corporate lessees making qualifying leasehold improvements may claim the credit. The credit may be claimed by completing Schedule H.

Note: Motor vehicles and trailers acquired on or after January 1, 1988 and subject to the motor vehicle excise do not qualify for the Investment Tax Credit.

A corporation may carry over to the **next succeeding three years** any unused portion of its Investment Tax Credit. This carryover may be taken by completing Schedule H.

Vanpool Credit

Foreign and domestic corporations are allowed a credit of 30% of the cost incurred during the taxable year for the purchase or lease of company shuttle vans used in the Commonwealth as part of an employer-sponsored ridesharing program. The shuttle vans must be used for transporting employees and students from their homes, or public transportation facilities, to their places of employment or study.

To claim the Vanpool Credit, Schedule VP must be completed. This credit is reconciled with your other credits on Schedule H and claimed in line 8 of the excise calculation.

Solar or Wind Power Deduction

A deduction is allowed for expenditures paid or incurred during the year for solar or wind power climate control or water heating units. Expenditures for ancillary units are not allowed. The equipment must be certified by the Office of Facilities Management, Division of Capital Planning, (617) 727-4030.

This deduction should be taken in line 17 of Schedule E.

Economic Opportunity Area Credit

A credit of 5% of the cost of qualifying property purchased for business use within an Economic Opportunity Area (EOA) is available to businesses. To qualify for the EOA credit, the property must be eligible for the 3% ITC and used exclusively in a certified project in an EOA. However, a 3% ITC and 5% EOA credit cannot be claimed with respect to the same property. A certified project is a project that has been approved by the Economic Assistance Coordinating Council (EACC). Any business that participates in a certified project located in an EOA, is eligible to take the credit for purchases of qualifying property.

The 5% EOA credit cannot offset more than 50% of the excise due nor reduce the excise below the minimum excise tax. Any unused credit may be carried forward for ten years. Corporations filing a combined return may share any excess 5% credit among other group members to the extent that other members can use the credit.

To claim the credit, Schedule EOA must be completed. This credit is reconciled with your other credits on Schedule H and claimed in line 6 of the excise calculation.

Research Tax Credit

A deduction is allowed for corporations which have incurred basic research payments and/or qualified research expenses for research conducted in Massachusetts during the taxable year. A corporation taking the research credit is allowed to deduct from excise:

- 100% of the first \$25,000 of excise; and
- 75% of any amount of excise remaining after the first \$25,000.

Unused credits may be carried over to subsequent years.

The deduction allowed to a corporation for any expenses which qualify for the credit must be reduced by the amount of the credit determined for the taxable year.

Any corporation which is a member of a combined group may share research credits with other members of the controlled group. Corporations which are members of a controlled group or which are under common control with any trade or business (whether or not incorporated) are treated as a single taxpayer for purposes of determining the allowable Research Credit.

See Schedule RC or Schedule RC-A instructions for further information. To claim the Research Credit, Schedule RC or Schedule RC-A must be completed and the amount entered in line 10 of the excise calculation.

Harbor Maintenance Tax Credit

Corporations are allowed a credit against the corporate excise for certain harbor maintenance taxes paid to the U.S. Customs Service pursuant to IRC Section 4461. A corporation is eligible for the credit if the tax paid is attributable to the shipment of break-bulk or containerized cargo by sea- and ocean-going vessels through a Massachusetts harbor facility.

The credit is not subject to the 50% limitation, however it may not reduce the tax to less than the minimum excise of \$456. A taxpayer may carryover any excess credit to any of the next succeeding five taxable years.

See Schedule HM instructions for further information. To claim the Harbor Maintenance Tax Credit, Schedule HM must be completed and the amount entered in line 11 of the excise calculation.

Full Employment Credit

Corporations who participate in the Full Employment Program and continue to employ a participant for at least one full month after any Full employment Program subsidy has expired may claim the Full Employment Credit. A qualified employer may claim a credit equal to \$100 per month of eligible employment per participant with a maximum credit of \$1,200 per participant. Qualified participants and employers are those who participate in the Full Employment Program under the rules of the Department of Transitional Assistance.

The credit is not subject to the 50% limitation, however it may not reduce the tax to less than the minimum excise of \$456. A taxpayer may carryover any excess credit to any of the next succeeding five taxable years.

See Schedule FEC instructions for further information. To claim the Full Employment Credit, Schedule FEC must be completed and the amount entered in line 12 of the excise calculation.

Brownfields Tax Credit

Taxpayers are allowed a credit for amounts expended to rehabilitate contaminated property owned or leased for business purposes and located within an economically distressed area.

See Schedule BC instructions for further information. To claim the Brownfields Credit, Schedule BC must be completed. The amount of the credit is entered in line 13 of the excise calculation.

Low-Income Housing Credit

See the Major Tax Law Changes for 2001 section on page 2 of the instructions for information on this credit.

To claim the Low-Income Housing Credit, the Eligibility Statement issued by the Department of Housing and Community Development must be completed and attached to the return. This credit is claimed in line 14 of the return.

For further information regarding this credit, contact the Department of Housing and Community Development, Division of Private Housing, at (617) 727-7827.

What if a Corporation's Taxable Year is Less Than 12 Months?

Corporations whose taxable year is less than twelve calendar months may determine their excise by prorating calendar months for the non-income measure of the excise only. Schedules should be attached to explain any prorating computations.

A corporation may never pay less than the \$456 minimum excise on a return, and this amount can never be prorated as Massachusetts law makes no provision for the proration of the minimum excise.

When Are Returns Due?

Corporation excise returns, together with payment in full of any tax due, must be filed on or before the 15th day of the third month after the close of the taxable year, calendar or fiscal.

An extension of time for filing returns will be granted for reasonable cause upon request. In order to request an extension, a corporation must file Form 355-7004 on or before the normal due date of the return and pay in full the estimated tax due.

Note: An extension of time to file is not valid if the corporation fails to pay at least 50% of the total tax liability or the minimum tax of \$456, whichever is greater, through estimated payments or with Form 355-7004.

Any tax not paid on or before the due date — without regard to the extension — shall be subject to interest charges.

What is a Proper Return?

A proper return is a return upon which all required amounts have been entered in all appropriate lines on all forms. Data sheets, account forms or other schedules may be attached to explain amounts entered on the forms. However, referencing lines to attachments in lieu of properly entering all amounts onto the return is not sufficient. Corporations who file computer-generated facsimile forms, can find specific requirements for filing such returns and schedules in TIR 95-8.

A properly filed return of a principal reporting corporation must also include exact and complete copies of all four pages of the corporation's U.S. Form 1120. Copies of all accompanying schedules and supplemental statements (e.g. Cost of Goods, Amortization, Other Income, Other Deductions, etc.) must be attached.

Supplements attached to the return to substantiate or support items must be standard business size, 8½" wide by 11" long. A separate page need not be attached for each supporting document and several supplements may be typed on one page as space permits. The attachments should be firmly fastened to the back of the return and references to all supplements should be clearly marked at the appropriate place on the return.

Failure to meet any of the requirements detailed in this section may result in a penalty for filing an insufficient return. Such penalties may be assessed at double the amount of the tax due.

Should the Corporation Be Making Estimated Tax Payments?

All corporations which reasonably estimate their corporate excise to be in excess of \$1,000 for the taxable year are required to make estimated tax payments to the Commonwealth. Estimated taxes may be paid in full on or before the 15th day of the third month of the corporation's taxable year or in four installment payments according to the schedule below. Corporations making estimated payments must use Form 355-ES to make their payments.

Corporate estimated tax installments are paid as follows:

<u>Installment no.</u>	<u>Pct. of estimated tax due</u>	<u>Due date from start of taxable year</u>
1	40%	15th day of 3rd month
2	25%	15th day of 6th month
3	25%	15th day of 9th month
4	10%	15th day of 12th month

Note: New corporations in their first full taxable year with less than 10 employees have different estimated payment percentages — 30%, 25%, 25% and 20% respectively.

If a combined group member wishes to have an excess portion of its estimated payment applied to the excise of another group member(s), it should indicate in writing the dollar amounts to be applied; the company name(s); the company's federal identification number; at the time the payment is made. The group should ensure that estimated payments made by or on behalf of the group member reflect the excise actually anticipated by each member.

Special Optical Character Readable payment vouchers are mailed to all corporations which have made estimated payments or should be making estimated payments. Blank estimated tax forms are also available from DOR.

Participation in Electronic Funds Transfer (EFT) of estimated tax payments is required for all business and manufacturing corporation excise tax filers whose annual corporate excise tax liability exceeds \$250,000. For further information, please call the Department's Automated Processing Bureau at (617) 887-5020.

Corporations which underpay, or fail to pay, their estimated taxes may incur an additional charge on the amount of the underpayment for the period of the underpayment. Form M-2220, Underpayment of Massachusetts Estimated Tax by Corporations, is used to compute the additional charge.

To avoid a possible underpayment penalty on its taxes, a corporation should, when filing its first voucher on Form 355-ES, estimate its tax to be at least equal to the prior year's tax. If the prior year's tax was the minimum tax, the corporation should make a payment or payments equal to the minimum tax to safeguard against a possible underpayment penalty.

Note: Any corporation having \$1 million or more of federal taxable income in any of its three preceding taxable years (as defined in Section 6655(g) of the IRC) may **only** use its prior year tax liability to calculate its **first** quarterly estimated tax payment. Any reduction in the first installment payment that results from using this method must be added to its second installment payment.

For more information on corporate estimated taxes, refer to 830 CMR 63B.2.2 and MGL Chapter 63B.

Schedule Instructions

Registration Information

Check "Domestic" if the corporation is incorporated in Massachusetts. Check "Foreign" if incorporated elsewhere.

Enter the corporation's federal business code and federal identification number to the right of the corporation name box.

Line 1

If line 1 is "Yes", enter the name and federal identification number of the principal reporting corporation. If line 1 is "No", **do not complete this return**.

Line 2

The apportionment factor for corporations engaged in substantial manufacturing (section 38 manufacturers) is 100% of sales.

A corporation is a section 38 manufacturer for any taxable year if it is engaged in manufacturing during the taxable year and its manufacturing activity during the taxable year is substantial. This applies whether the corporation is a domestic manufacturing corporation under MGL Ch. 63, sec. 38C or a foreign manufacturing corporation under MGL Ch. 63, sec. 42B, and regardless of whether the corporation is classified as a manufacturing corporation under MGL Ch. 58, sec. 2 and Massachusetts Regulation 830 CMR 63.58.2.1.

A corporation's manufacturing activity is substantial for any taxable year if the corporation meets any of the following tests:

- The corporation derives twenty-five percent or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation pays twenty-five percent or more of its payroll for the taxable year to employees working in manufacturing operations and derives fifteen percent or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses twenty-five percent or more of its tangible property in manufacturing during the taxable year and derives fifteen percent or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses thirty-five percent or more of its tangible property in manufacturing during the taxable year.

Effective January 1, 1997, mutual fund service corporations are required to attribute their mutual fund sales to Massachusetts based on the domicile of the shareholders in the fund. Effective July 1, 1997 mutual fund service corporations are allowed to apportion their net income from mutual fund sales based solely on their sales factor. However, in order to use the single sales factor apportionment method a mutual fund service corporation must increase its workforce in Massachusetts by 5% a year for five years based on the 1996 employment level unless adverse economic conditions exist. Taxable net income not derived from mutual fund sales is apportioned according to the statutory three factor method.

A corporation is a mutual fund service corporation if it derives more than fifty percent of its gross income from providing, directly or indirectly, management, distribution or administration services to or on behalf of a regulated investment company, and from trustees, spon-

sors and participants of employee benefit plans which have accounts in a regulated investment company.

The Department has issued further guidance on apportionment for mutual fund service corporations; see Massachusetts Regulation 830 CMR 63.38.7.

If a corporation is qualified as a section 38 manufacturer or is a mutual fund service corporation, check the applicable box and complete Schedule F, Income Apportionment, accordingly. Section 38 manufacturers and mutual fund service corporations must also complete and attach Form F-2. Form F-2 is available at www.mass.gov/dor or any Department of Revenue location.

The Department has issued further guidance on apportionment; see Massachusetts Regulation 830 CMR 63.38.1.

Line 3

If your corporation has undergone a federal audit for some prior year, you must report any changes to Massachusetts on Form CA-6, Application for Abatement/Amended Return. You must report any federal audit changes within three months after the final determination of the correct taxable income by the IRS. Otherwise, you will be subject to a penalty. Answering line 3 does not relieve the corporation from this filing obligation.

Line 6

If the corporation is requesting alternative apportionment under MGL Ch. 63, sec. 42, check the box in line 6 and attach Form AA-1. Both this return and Schedule F must be completed and the tax must be paid according to the statutory three-factor formula. However, alternative treatment may be requested and a refund will be issued if such treatment is granted by the Commissioner of Revenue. For further information on alternative apportionment see MGL Ch. 63, sec. 42 or 830 CMR 63.42.1.

Line 8

Any corporation undergoing a voluntary dissolution should notify the DOR within 30 days of the vote to dissolve by writing to: Massachusetts Department of Revenue, Customer Service Bureau, PO Box 7010, Boston, MA 02204 or by calling (617) 887-MDOR.

Line 9

Domestic and foreign insurance mutual holding companies are subject to the corporate excise as business corporations but are not required to pay the portion of tax based on the value of their tangible property or net worth (i.e., the non-income measure of the excise). The corporate excise tax for an insurance mutual holding company is the greater of 9.5 percent of its net Massachusetts income in Massachusetts, or the minimum excise tax of \$456.

If you are a classified manufacturer, you must have filed Form 355Q and had your manufacturing status approved by the Commissioner.

A domestic business qualifies as an R & D corporation only if: its principal activity is research and development; more than 2/3 of its total receipts for the taxable year are derived from research and development; and more than 1/3 of its receipts for the taxable year are derived from the research and development of tangible personal property capable of being manufactured in the Commonwealth.

A foreign business qualifies as an R & D corporation only if: its principal activity is research and development; more than 2/3 of its total receipts assignable to Massachusetts (for the taxable year) are derived from research and development; and more than 1/3 of its receipts assignable to Massachusetts (for the taxable year) are derived from the research and development of tangible personal property capable of being manufactured in Massachusetts.

Excise Calculation

In order to complete the excise calculation, all appropriate schedules must be filled out first. Therefore, schedule instructions precede the instructions for the excise calculation section.

Schedule A. Balance Sheet

Enter the closing amounts for the taxable year covered by this return. Once the corporation's balance sheet is completed, it will be easier to complete subsequent schedules.

Line 1a

Enter here the book value of all buildings. A portion of the cost attributable to buildings under construction and reported on the corporation's books as construction in progress (CIP) is considered real estate for purposes of the property measure of the corporate excise and must be reported on line 1a. Enter 100% of the corporation's real estate CIP costs, less 15% of the **current year's** accumulation. This 15% is considered tangible property and must be reported on line 1k.

Line 1j

The value of any certified solar/wind units for which a deduction is claimed this year should be entered here. Amounts of certified industrial waste and/or air pollution treatment facilities and certified solar/wind deductions claimed in any prior year should be included. In order to be eligible for this deduction, property must be certified by the appropriate state agencies and copies of such certificates must be attached to this return. See instructions for Schedule E, line 17.

Line 1k

Enter here the value of all tangible property reported on the corporation's books as CIP. In addition, enter here 15% of the **current year's** real estate CIP accumulation.

Line 2b

Enter here the value of inventory that is exempt from the tangible property measure of the excise. An example of exempt inventory is merchandise of foreign origin imported and immediately placed in a federally bonded warehouse. Merchandise of domestic origin is not exempt from the tangible property measure of the excise. A schedule listing the components of any entry in line 2b must be attached.

Line 12

In order to be a subsidiary, the parent must own at least 80% or more of the voting stock of a corporation in accordance with IRC sec. 1504. Include investments in capital stock. Advances should include payments in the nature of capital contributions. Do not include loans or other receivables. Attach a schedule for each applicable line listing the name, percentage of ownership, and amount of investments. Indicate whether the corporation is domestic or foreign. For line 12c, if the investment is in an entity other than a corporation, such as a partnership, list the type of entity.

Line 12a

Enter in line 12a the total of capital stock and equity contributions of foreign subsidiary corporations 80% or more owned not doing business in Massachusetts.

Line 12b

Enter in line 12b the total of capital stock and equity contributions of any subsidiary 80% or more owned not included in 12a.

Line 12c

Enter in line 12c the value of capital stock investments with less than 80% ownership and also any other investment entity such as a partnership.

Line 14

If the reserve for bad debt exceeds 2% of accounts receivable, attach a complete explanation to enable a review and determination of the proper amount allowable.

Line 17

Enter here the value of any assets not included in lines 1 through 16. Examples include, but are not limited to, goodwill and company patents.

Line 19a

Enter the value of mortgages on Massachusetts real estate, motor vehicles, machinery owned by a corporation which is not classified as a manufacturing corporation, and other tangible personal property located in Massachusetts and subject to local taxation. Mortgages do not include conditional sales, pledges or other types of security interest.

All lines in Schedule A should be accompanied by a separate schedule if an explanation is required.

Schedules B, C and D. Tangible or Intangible Classification and Calculation of Non-Income Measure

Schedules B, C and D are used to calculate the non-income measure of the Massachusetts corporate excise. Schedule B is used to determine whether a corporation is a tangible or intangible property corporation. Once determined, tangible property corporations must complete Schedule C (and omit Schedule D) and intangible property corporations must complete Schedule D (and omit Schedule C). Net book values should be used in completing all schedules.

Schedule B

Schedule B is used to calculate whether a corporation is a tangible or intangible property corporation. The calculations done on lines 1 through 13 determine the property percentage as if the corporation is a domestic corporation. Completing the schedule through line 18 determines the property percentage as if it were a foreign corporation. The corporation is then allowed to choose the percentage from either line 13 or line 18. One of these two is entered on line 19. If line 19 is 10% or greater, complete Schedule C. If line 19 is less than 10%, complete Schedule D. The corporation may annually elect to calculate its non-income measure as a domestic or foreign taxpayer.

For line 14, enter the amount from Schedule A, line 12a plus from Schedule A, line 12b the total of any investments in foreign corporations not doing business in or registered in Massachusetts.

Schedule C

If a corporation's ratio, the — "tangible property percent" — is 10% or greater, the corporation must complete Schedule C using net book values to determine the non-income measure of the excise. Omit Schedule D.

Schedule D

Schedule D is used by a corporation to calculate its non-income measure excise on the basis of net worth. If line 19 of Schedule B is less than 10%, complete this schedule.

The corporation is allowed to annually change this election. The calculation as a domestic corporation is done on lines 1 through 9. To calculate net worth as a foreign corporation, continue through line 22. Enter the smaller of lines 9 or 22 on line 23.

Schedule E-1. Dividends Deduction

Massachusetts corporate excise law does not allow the dividends received deduction allowed under the IRC. However, a deduction is allowed for 95% of the value of all dividends received except:

- dividends from ownership of shares in a corporate trust engaged in business in the Commonwealth;
- dividends resulting from deemed or actual distributions (except actual distributions of previously taxed income) from a DISC which is not wholly-owned; or
- dividends from any class of stock if the corporation owns less than 15% of the voting stock of the payer corporation.

A schedule showing payers, amounts and percent of voting stock owned by class of stock must accompany Schedule E-1.

Corporate Disclosure Schedule

Chapter 402 of the Acts of 1992 requires the Department of Revenue to conduct an annual analysis of corporate tax liability. To provide the Department with information necessary to complete this analysis, corporations are required to report amounts taken federally for charitable contributions, research expenses and certain types of depreciation. All corporations must complete the Corporate Disclosure Schedule on their return or the return will be considered insufficient and will be subject to applicable penalties and interest.

Schedule E-2. Loss Carryover Deduction

Massachusetts law allows two different loss carryover deductions. A corporation may take only one of these deductions. If the corporation qualifies to take either deduction, the choice between the deductions is left to the corporation's discretion.

Part 1

Massachusetts law allows a loss carryover deduction for all corporations, regardless of how long the corporation has been in existence. Corporations will be allowed to carryover for no more than five years (but not carry back) net operating losses (NOL) as defined in IRC Sec. 172.

Part 2

Massachusetts law also allows a carryover deduction for losses, as determined under IRC Sec. 172, incurred during the first five years of a corporation's existence. The following limitations are placed upon this deduction:

- Carryover losses are not allowed to corporations where 50% or more of the voting stock is owned by another corporation (whether or not the owning corporation is taxable in Massachusetts);
- Losses of a foreign corporation incurred before becoming subject to Massachusetts corporate excise liability are not allowed; and
- The deduction can be taken **only** within the initial five-year period.

Schedule E. Taxable Income

Part 1. Taxable Income

Schedule E has been designed specifically for use by combined corporate filers. **Schedule E must be completed by the principal reporting corporation only.** The principal reporting corporation should provide each subsidiary or affiliate corporation with the amount from Schedule E, Part 2, line 4 needed to complete each corporation's Schedule H.

Mutual fund service corporations eligible to apportion their income under MGL Ch. 63, sec. 38 (m) must complete two separate Schedule Es: (1) for income derived from mutual fund sales; and (2) for non-mutual fund sales income, if any. Taxable net income from mutual fund sales is gross income from mutual fund sales less: (1) any deductions directly traceable to its mutual fund sales; and (2) a portion of other allowable deductions. Other allowable deductions consist of deductions not directly traceable to mutual fund sales or non-mutual fund sales. To determine the deductible amount of its other allowable deductions a mutual fund service corporation must multiply the total amount of its other allowable deductions by a fraction, the numerator of which is the mutual fund service corporation's gross income derived from mutual fund sales for the taxable year and the denominator of which is the mutual fund service corporation's total gross income for the taxable year. Taxable net income from non-mutual fund sales consists of any taxable net income not derived from mutual fund sales.

If a corporation is not a mutual fund service corporation, 100% of sales, profits, and income should be entered in lines 1 through 9. If the corporation has income from business activities which is taxable both in Massachusetts and any other state, Schedule F should be completed and the apportionment percentage entered in line 15.

Line 4

Enter federal taxable income before deducting net operating loss or other special deductions. If the corporation is the parent of a DISC, income should be reported with no allocation to the DISC.

Line 5

Subtract from Schedule E, line 4 any allowable U.S. Wage Credit used in computing U.S. Form 1120, line 13. Enter the result in line 5.

Line 6

Enter all interest received on state and municipal obligations not reported in federal net income.

Line 7

Massachusetts does not allow a deduction for state, local and foreign income, franchise, excise or capital stock taxes. Any such taxes which have been deducted from federal net income should be entered in line 7 and added back into income.

Line 8

Enter any adjustments to income not previously reported and attach a schedule explaining them. For example, enter in this line the amount of depreciation or amortization taken this year in computing federal net income for the following:

- certified industrial waste and/or pollution treatment facilities of prior years; or
- certified solar/wind units of current or prior years, if said facilities were sold during the year. (See MGL Ch. 63, sec. 38D(d) and sec. 38H(e) for further explanation.)

Capital gains on installment sales of intangible property made prior to 1963 may also be deducted from income. These gains fall under the provisions of prior Massachusetts law when such income was not taxable (see MGL Ch. 63, sec. 38(a)(2)). This adjustment should be made in line 8.

Deduct the full federal research credit generated provided that the full federal research credit was taken. If a reduced federal research credit was taken, no adjustments are necessary.

In the "Total tentative research credit" line of Schedule RC-A, add back the full Massachusetts research credit generated.

The deduction allowed to a corporation for any expense which qualifies for the Massachusetts Research Credit must be reduced by the Massachusetts Research Credit determined in the current taxable year. In addition, subsection (c) of Section 280C of the IRC, which requires a similar reduction of the deduction, shall not apply in determining Massachusetts net income.

Line 10

Enter the total cost of renovating an abandoned building in an Economic Opportunity Area. Multiply this amount by 10% and enter the result in line 10.

Line 11

Refer to Schedule E-1 for the allowable deductions for dividends. Dividends from a Massachusetts corporate trust, a non-wholly-owned DISC or a corporation of which less than 15% of the voting stock is owned are not deductible.

Line 12

Members of a combined group may share excess new corporation Net Operating Loss (NOL) carryover, after apportionment, with other members who have positive net income in proportion to the amount of income that each member contributes to the combined group. See Schedule E-2 instructions for further information.

Line 13

Massachusetts allows two different loss carryover deductions. A **corporation may take only one of these deductions**. A complete schedule of federal loss carryback and carryforward computations should be attached.

Refer to Schedule E-2 for the allowable amount of loss which may be entered in this item.

Line 15

If the corporation conducts business activities in another state sufficient to give that state the jurisdiction to tax the corporation, Schedule F should be completed in order to determine the apportionment percentage. If all business is conducted in Massachusetts, 100% should be entered in line 15.

Line 17

A deduction is allowed for expenditures paid or incurred during the taxable year for the installation of any solar or wind powered climate control or water heating unit. Ancillary units do not qualify.

In order to be eligible for this deduction, the property must be certified by the Office of Facilities Management. A copy of such certification must be submitted along with a schedule itemizing the cost, allowable federal depreciation, date of installation, and place of installation. If these amounts are prorated, the computation should be explained.

If eligible units do not continue in qualified use for ten years, the deductions previously allowed must be added back to taxable income. The computation of any such additional income should be explained in an attached schedule and the amount should be entered in Schedule E, line 8.

Note: The special deduction for the construction of certified industrial waste and/or air pollution treatment facilities does not apply to expenditures paid or incurred on or after January 1, 1980.

Part 2. Allowable Credits

Part 2 is designed to work in conjunction with Schedule H and Schedule RC-A to help calculate each corporation's allowable credits. Part 2 provides the information necessary to ensure that each member of the combined group applies the Schedule H and RC-A limitations to its credits. Part 2 need not be completed for corporations with no credits.

Line 1

In order to calculate the income excise of each corporation to determine allowable credits, the combined group's income excise must be multiplied by the ratio of each company's Massachusetts taxable income to the combined group's taxable income excluding losses.

Note: If the combined group's taxable income from Schedule E, Part 1, line 18, column G is zero or less, do not complete line 1. Instead, skip to line 2.

Make this calculation by taking the following steps:

Step 1. Enter the combined group's taxable income from Part 1, line 18, column G.

Step 2. Multiply the total amount in step 1 by .095.

Step 3. Calculate the combined group's taxable income, excluding losses, by totaling the Massachusetts taxable income of each company with positive income in Part 1, line 18, columns A–F. (If there are more than 6 companies in the Massachusetts combined group, add the applicable additional columns.)

Step 4. For each company with positive Massachusetts taxable income, divide the company's Massachusetts taxable income reported in Part 1, line 18 by the total from step 3.

Step 5. For each company with positive Massachusetts taxable income, multiply the amount from step 4 by the step 2 total. Enter this result in each company's column in Part 2, line 1. For companies with no Massachusetts taxable income or with a net loss, enter "0" in the company's column in Part 2, line 1.

Line 2

Enter the non-income excise for each corporation from the corporation's excise calculation, lines 1 or 2.

Line 4

Add lines 1 through 3. Enter the total for each corporation in line 4 and on the corporation's Schedule H, line 11, and Schedule RC-A, Part 4, line 19.

Line 5

Enter the total credits used by each corporation from the corporation's Schedule H, column B, lines 13 through 27, and Schedule RC-A, Part 4, line 30.

The credits used by each corporation should be reported on its own excise calculation and/or on the principal reporting corporation's excise calculation. A corporation, however, may not utilize credits (other than Research Credits the Harbor Maintenance Tax Credit and the Full Employment Credit) in excess of its total on Schedule H, column B, line 13 through 27, nor lower its excise due to an amount below the minimum excise of \$456. Column B amounts that would lower an affiliate or subsidiary corporation's non-income excise below the minimum excise of \$456 should be reported on the principal reporting corporation's excise calculation.

Note: Each corporation must first apply its research credits against its individual excise. However, a member corporation with an excess research credit may apply its excess credit against the excise of another group member to the extent such other member can use additional credits under the research credit limitations.

Example

Companies A, B and C filed a combined return in Massachusetts.

Company A is the principal reporting corporation for the combined group. Company A has income taxable in Massachusetts of \$40,000, a non-income excise of \$1,000 and a \$1,000 Vanpool Credit.

Company B has income taxable in Massachusetts of \$10,000, a non-income excise of \$500 and \$2,000 in Investment Tax Credit.

Company C has a loss of \$20,000, a non-income excise of \$2,000 and no available credits.

After the calculations in Steps 1 through 5 have been completed, the amount in Step 5 for each company is entered into its column in Part 2, line 1. Next, the non-income excise for each corporation (from the corporation's excise calculation, lines 1 or 2) is entered into Part 2, line 2. These items are then added together for each corporation and the total for each corporation is entered in Part 2, line 3. (Each corporation's total is also entered into the corporation's Schedule H, line 11.) Finally, after each corporation completes Schedule H to calculate the credits allowable for use in the current year and the total credits used, the total of each corporation's Schedule H, column B, lines 13 through 27 is entered into Part 2, line 4. (Unused credits may still be available for carryover on Schedule H.)

The following chart shows the arithmetic involved in calculating the income excise of each corporation for purposes of determining allowable credits. If Step 1 is a loss, enter zero.

	Company			Total
	A	B	C	
1) Line 18 from Schedule E, Part 1.	\$40,000	\$10,000	(\$20,000)	\$30,000
2) Multiply Step 1 total by .095	_____	_____	_____	\$ 2,850
3) Total of all Positive Step 1's	_____	_____	_____	\$50,000

4) Step 1 divided by Step 3 total	.8	.2	0	
5) Step 4 multiplied by Step 2 total	\$ 2,280	\$ 570	0	\$ 2,850

The following chart shows how Schedule E, Part 2 would be completed in this example.

	Company		
	A	B	C
Line 1) Income excise for purposes of determining allowable credits	\$2,280	\$ 570	0
Line 2) Non-income excise. (From excise calculation, lines 1 or 2)	\$1,000	\$ 500	\$2,000
Line 4) Total excise for purpose of determining allowable credits. Add lines 1 and 2. Enter here and in line 11 of Schedule H.	\$3,280	\$1,070	\$2,000
Line 5) Total credits used. (From column B, lines 13 through 26 on Schedule H.)	\$1,000	\$ 535	0

In this example, to report its total credits used, Company A, the principal reporting corporation, would enter \$1,000 in line 8 of its excise calculation. Company B would enter only \$44 in line 7 of its own excise calculation so as not to lower its excise due below the minimum tax of \$456. The remaining \$491 of credits used would be entered in line 7 of the principal reporting corporation's excise calculation. (This example assumes that there are no carryover credits from prior years.)

Schedule F. Income Apportionment

The Schedule F spreadsheet has been designed specifically for use by combined corporate filers. **Schedule F must be completed by the principal reporting corporation only.** The principal reporting corporation should provide each subsidiary or affiliate corporation with the income apportionment percentage from Schedule F, as needed to complete each corporation's Schedules B and D. Corporations must complete all lines, regardless of apportionment method used. For further information on income apportionment, see the Massachusetts Regulation, 830 CMR 63.38.1.

Mutual fund service corporations should complete a Schedule F for income from mutual fund sales if they made mutual fund sales to RIC's with shareholders domiciled outside of Massachusetts. Schedule F should be completed by all other corporations (including mutual fund service corporations reporting non-mutual fund sales) which have income from business activities which is taxable both in Massachusetts and in any other state. Income is considered taxable if the other state has the jurisdiction, whether exercised or not, to subject the corporation to a corporate, franchise, privilege, or net income tax. See Massachusetts Regulation 830 CMR 63.38.1.

For further information about corporations that hold partnership interests and the appropriate method to use to apportion partnership income see, 830 CMR 63.38.1 sections 4(d) and 11.

Note: If alternative apportionment is being requested under MGL Ch. 63, sec. 42, you must still complete and file Schedule F. Also, check the box in line 6 of the Registration section on Form 355C-A or Form 355C-B and attach Form AA-1. A refund will be issued if alternative apportionment is granted by the Commissioner. For further information see the Massachusetts Regulation 830 CMR 63.42.1.

Corporations engaged in substantial manufacturing (section 38 manufacturers) are required to apportion their net income using a sales factor of 100%. Corporations other than section 38 manufacturers or mutual fund service corporations are required to apportion their net income as follows: sales factor — 50%, property — factor 25%, payroll factor — 25%.

To determine if a corporation qualifies as a section 38 manufacturer or mutual fund service corporation, see the registration section, line 2 instructions. If a corporation is a section 38 manufacturer or mutual fund service corporation, check the applicable box. If a corporation is not a defense corporation electing single sales factor apportionment or a Section 38 manufacturer or a mutual fund service corporation, check the box for other.

Mutual fund service corporations must complete a Schedule F based on mutual fund sales and a separate Schedule F based on non-mutual fund sales if any. The Department has issued guidance on apportionment for mutual fund service corporations; see Massachusetts Regulation 830 CMR 63.38.7.

Property Factor

Lines 1a and 2a

For tax purposes, average value is based on original cost and is determined by averaging the property values at the beginning and end of the taxable year. If substantial changes occur during the taxable year, the Commissioner may require monthly averaging to properly reflect the average value of the property.

For purposes of the property factor, a taxpayer may elect to use any reasonable method for attributing its mobile property to Massachusetts. The election is made by filing a return that employs the chosen method for the first tax year ending on or after August 11, 1995, in which the taxpayer owns or rents mobile property and apportions income to Massachusetts. The taxpayer must attach a statement to its return describing the method chosen and must use the same method consistently from year to year. For further information, including safe harbor methods, see 830 CMR 63.38.1 sec. 7 (d).

Construction in progress is generally excluded from the property factor, see 830 CMR 63.38.1 sec. 7(a). For purposes of the property factor, inventory in transit is deemed to be at its destination, see 830 CMR 63.38.1 sec 7(c).

Lines 1b and 2b

Property rented by the corporation is valued at eight times the annual net rental rate paid less any sub-rentals received.

Payroll Factor

Lines 4 and 5

Enter the total amount of wages, salaries, commissions, or any other compensation paid to employees. An employee's compensation is apportioned to Massachusetts if **any** of the following apply:

- the employee's service is performed within Massachusetts;

- the employee's service is performed both in Massachusetts and in other state(s), but the non-Massachusetts service is secondary to the Massachusetts service;

- part of the employee's service is performed in Massachusetts, and the service is controlled from a base of operations/place of control in Massachusetts; or

- part of the employee's service is performed in Massachusetts and the base of operations/place of control of the service is not in a state in which some part of the service is performed, but the employee lives in Massachusetts.

The total amount paid for compensation is computed on the cash basis, as reported for unemployment purposes. A taxpayer that uses the accrual method of accounting in computing its taxable net income may elect to use the accrual method in Massachusetts during the taxable year. For further information on how to elect the accrual method see 830 CMR 63.38.1 sec. 8(a).

Sales Factor

For sales factors, enter all gross receipts of the corporation with the exception of those receipts from interest, dividends and the sale or other disposition of securities.

Lines 7a and 8a

Sales of tangible personal property are assignable to Massachusetts if:

- the property is delivered or shipped to any buyer, including the U.S. Government, in Massachusetts; or

- the selling corporation is not taxable in the state of the buyer and the property is not sold by an agent or agencies chiefly situated at, connected with, or sent out from premises for the transaction of business owned or rented by the corporation outside Massachusetts. A buyer for this line includes the U.S. Government.

Sales of tangible personal property are **not** assignable to Massachusetts if:

- the property is shipped or delivered to a buyer in a foreign country;
- or the property is sold to any branch or instrumentality of the U.S. Government for resale to a foreign government.

Lines 7b and 8b

Sales of services other than mutual fund sales, or other intangibles, are assigned to Massachusetts if the income producing activity is performed in Massachusetts, or if a greater portion of the activity, based on performance cost, occurs in Massachusetts more than in any other state.

Mutual fund sales are assigned to Massachusetts as follows:

- mutual fund sales are determined separately for each RIC from which the mutual fund service corporation receives fees for mutual fund services;

- the mutual fund sales for each RIC are multiplied by a fraction, the numerator of which is the average number of shares owned by the RIC's shareholders domiciled in Massachusetts at the beginning and end of the RIC's taxable year that ends within the mutual fund service corporation's taxable year, and the denominator of which is the average number of shares owned by all of the RIC's shareholders for the same period; and

- the resulting amounts are totaled for all RICs.

Lines 7c and 8c

Rents from property located or used in Massachusetts are assigned to Massachusetts. Royalties are assigned to the state in which the property right is actually used by the lessee.

If using a three-factor apportionment formula, and one or more factors are inapplicable, the following shall apply:

- In cases where only two of the three apportionment factors (property, payroll, sales) are applicable, the taxable net income is apportioned by a fraction, the numerator of which is the remaining two factors with their respective weights and the denominator of which is the number of times that such factors are used in the numerator.
- In cases where only one of the three apportionment factors (property, payroll, sales) is applicable, the taxable net income is apportioned solely by that factor with its respective weight, and the denominator is the number of times the factor is used in the numerator.

An apportionment factor should not necessarily be considered inapplicable if its Massachusetts total is zero. If any of the apportionment totals for "Everywhere" lines 2c, 5 or 8e are less than 3.33% of Schedule E, line 14, **do not** include that factor in your Massachusetts apportionment percentage.

Line 11

Mutual fund service corporations should enter the amount from line 11 computed on mutual fund sales only, in line 15 of the Schedule E being completed using mutual fund sales only. All other corporations including mutual fund service corporations reporting non-mutual fund sales, should enter the amount from line 11 in line 15, of Schedule E (for mutual fund service corporations, the Schedule E being completed for non-mutual fund sales).

Schedule H. Investment Tax Credit and Carryovers

The Investment Tax Credit equals 3% of the cost or other federal basis of qualifying property less any U.S. Investment Tax Credit taken on such property (including any amount of federal credit on the property which is carried to another year, see TIR 87-2). To qualify for the credit, the property must be tangible personal property, buildings or structural components of buildings; and it must have been acquired, constructed, reconstructed, or erected during the taxable year. The property must also (a) be depreciable, (b) have been acquired by purchase pursuant to Section 179(d) of the U.S. Internal Revenue Code, (c) have a useful life of four years or more or a recovery period of three years or more, (d) be used in Massachusetts, and (e) be situated in Massachusetts on the last day of the taxable year. A corporation cannot take the credit on property which it leases to another. A corporation can take the credit on property which it leases from another (for property leased and placed in service on or after July 1, 1994). Generally, eligible corporate lessees making qualifying leasehold improvements may claim the credit.

Part 1

To be eligible for the credit, a corporation must be (a) engaged in manufacturing during the taxable year, or primarily engaged in (b) agriculture, (c) commercial fishing, or (d) research and development. A corporation qualifies under (d) only if its principal activity is research and development and more than $\frac{2}{3}$ of its total receipts for the taxable year (or $\frac{2}{3}$ of receipts assignable to Massachusetts if a foreign corporation) are derived from research and development, and more than $\frac{1}{3}$ of its receipts for the taxable year (or $\frac{1}{3}$ of receipts assignable to Massachusetts if a foreign corporation) are derived from the research and development of tangible personal property capable of being manufactured in Massachusetts.

Part 2

For leased property the credit is based on the lessor's adjusted basis in the leased property (determined at the beginning of the lease term) multiplied by a fraction, the numerator of which is the number of days of the taxable year during which the lessor leases the property and the denominator of which is the number of days in the useful life of the property. Useful life is the period over which the lessor depreciates the leased property for federal tax purposes.

If property qualifying for the Investment Tax Credit is disposed of or ceases to be in qualified use during the year of purchase, the credit allowed is 3% of the federal basis of the property (less any U.S. Investment Tax Credit taken) multiplied by this formula:

$$\frac{\text{Months of qualified use}}{\text{Total months of useful life}}$$

Note: Corporations are required to submit a separate statement explaining the job opportunities created by the Investment Tax Credit. The statement must include both the number of new jobs created and/or existing jobs protected by the new investment. Include on the statement any other information considered to be pertinent to employment in Massachusetts.

Part 3

Use this section to calculate (a) the number of credits available in the current year, (b) the total number of credits which may be used in the current year to offset the excise — including the order in which the various types of credits are to be used, and (c) the number and status (limited or unlimited life) of credits that may be carried to subsequent years.

Column a

List the available credits from the appropriate supporting schedule on lines 13 through 26. Enter in line 27 the unlimited credit carry-over from prior years (2000 Schedule H, line 44). These are credits earned in past years whose use was disallowed by the rule that only 50% of the excise may be offset by credits.

Column b

Credits should be used in the order of lines 13 through 27. This order will prevent the unnecessary lapsing of credits by giving priority to credits which lapse first.

Step 1. Start with line 13a and work downward, transferring the amount (or part thereof) on each line on column a to column b until all available credits are used **or** until the total transferred to column b equals the amount in line 12, **whichever occurs first**.

Step 2. Enter the amount from line 13b in line 8 of the excise calculation. Enter the total amount from lines 14b through 27b, less any amounts included in lines 17b and 26b, in line 9 of the excise calculation. Enter the amount from 17b in line 7 of the excise calculation. Enter the amount from line 26b in line 6 of the excise calculation.

Column c

Complete this column only if line 29a is more than line 12. Subtract column b from column a, lines 13–27, and enter the differences, if any, in column c.

Column d

Start with line 13c and work downward transferring the amount (or part thereof) on each line in column c to column d until all unused credits are transferred or the total transferred to column d equals the amount in line 29, whichever occurs first. Transfer any amount from line 27c to line 27d.

Note: The column b amounts for each corporation should be reported on its own excise calculation and/or on the principal reporting corporation's excise calculation. The corporation may not utilize credits in excess of the column b total nor lower its excise due to an amount below the minimum excise of \$456. Column b amounts that would lower an affiliate or subsidiary corporation's non-income excise below the minimum excise of \$456 should be reported on the principal reporting corporation's excise calculation.

Schedule H-2. Credit Recapture

If property is disposed of or ceases to be in qualified use prior to the end of its useful life, the difference between the credit taken and the total credit allowed for actual use must be added back in Form 355C, line 4 of excise calculation, as additional taxes in the year the property is disposed of. The amount of credit allowed for actual use is determined by this formula:

$$\text{Original Credit} \times \frac{\text{Months of qualified use}}{\text{Total months of useful life}}$$

If the property has been in qualified use for more than 12 consecutive years, it is not necessary to add back the credit.

Line 9

If the taxpayer's records show that a portion or all of the original credit was never used to offset tax, the recapture tax may be reduced by the unused amount. To substantiate an amount in line 9 of Schedule H-2, taxpayers are required to complete and attach the Schedule H-2 Worksheet (Recapture Offset Worksheet) or to attach their own schedule, provided it performs the same calculations as the worksheet. The worksheet may be obtained by visiting www.mass.gov/dor or by calling the Customer Service Bureau at (617) 887-MDOR.

For further information on Investment Tax Credit Recapture, refer to DOR Directive 89-7.

Excise Calculation

The excise calculation schedule on the front of Form 355C is used to calculate the two measures of the Massachusetts corporation excise. These are:

- a tax of \$2.60 per \$1,000 on taxable Massachusetts tangible property or taxable net worth, whichever applies. If the return is for a short taxable year, the tangible property or taxable net worth should be prorated; and
- a tax of 9.5% on income attributable to Massachusetts.

The law also provides for a minimum excise of \$456.

Line 3

Line 3 must be completed by the principal reporting corporation only.

Lines 6–14

The credits used by each corporation should be reported on its own excise and/or on the principal reporting corporation's excise calculation. A corporation, however, may not utilize credits in excess of its total from Schedule H, lines 13–27, column b, nor lower its excise due below the minimum excise of \$456.

Line 15

The maximum amount of credit which may be used in any one taxable year shall not exceed 50% of the excise imposed. This limitation applies to credits listed in lines 6 through 9 and line 13. A corporation may carry over and apply to any subsequent taxable years any remaining credits not allowed because of the 50% limitation. Schedule H should be completed to determine the amount of the carryovers.

Line 19

Any corporation that wishes to contribute any amount to the Natural Heritage and Endangered Species Fund may do so on this form. This amount is added to the excise due. It increases the amount of the corporation's payment or reduces the amount of its refund.

Lines 21, 22, 23 and 30

The amounts entered in lines 21, 22, 23 and 30 should reflect the final allocation of payments, without reference to which member of the combined group made the payment originally. For the subsidiary or affiliated corporation, these amounts would include any portion of its non-income measure or minimum excise paid by the principal reporting corporation.

Lines 28 and 29

The following penalties apply:

Penalty for underpayment of estimated tax. An additional charge for the period of any underpayment may be imposed on corporations which underpay their estimated taxes or fail to pay estimated taxes. Form M-2220, Underpayment of Massachusetts Estimated Tax by Corporations, should be used to compute any underpayment penalty.

Penalty for failure to file. The penalty for failure to file a tax return by the due date is 1% of the tax due per month (or fraction thereof), up to a maximum of 25%.

Penalty for late payment. The penalty for failure to pay the total payment due with this form is ½% of the tax due per month (or fraction thereof), up to a maximum of 25%. A late payment penalty does not apply to amended returns when the amount shown on the original return was paid.

Any corporation which fails to pay its tax when due, will be subject to interest charges.

Signature

The form must be signed by the treasurer or assistant treasurer or, in their absence or incapacity, by any other principal corporate officer. The social security number of the signing officer should be entered next to the date the return was signed. If you are signing as an authorized delegate of the appropriate corporate officer, check the box in the signature section and attach a copy of Massachusetts Form M-2848, Power of Attorney. The form must also be signed by any paid preparer of the form. Mail to:

**Massachusetts Department of Revenue
PO Box 7067
Boston, MA 02204**

Department of Revenue Resources

DOR Locations in Massachusetts

19 Staniford Street
Boston 02214
(617) 887-MDOR.

218 South Main Street
Fall River 02721
(508) 678-2844

1019 Iyanough Road
Hyannis 02601
(508) 771-2414

333 East Street
Pittsfield 01201
(413) 499-2206

436 Dwight Street
Springfield 01103
(413) 784-1000

40 Southbridge Street
Worcester 01608
(508) 792-7300

DOR Locations throughout the Country

1355 Peachtree Street NE
Suite 1280
Atlanta, GA 30309
(404) 874-2922

101 South First Street, 4th Floor
Burbank, CA 91502
(818) 840-9059

150 North Michigan Avenue
Suite 2035
Chicago, IL 60601
(312) 899-9040

2603 Augusta Drive
Suite 1075
Houston, TX 77057
(713) 784-7225

1440 Broadway
Suite 2272
New York, NY 10018
(212) 768-2750

355 Fifth Avenue
Suite 1400
Pittsburgh, PA 15222
(412) 281-2776

What kind of help is available

The instructions in the Department of Revenue's tax forms should provide answers to most taxpayer questions. If you have questions about completing your Massachusetts tax form, you can call or visit any of the Department of Revenue offices listed on this page Monday through Friday, between 8:45 a.m. and 5:00 p.m. Taxpayers also can call TaxTalk, the Department's 24-hour automated system of recorded tax help, at the main information lines listed below. In addition, DOR issues a number of useful publications on various state tax issues. These publications include: tax-specific guides written in question and answer format such as the *Guide to Filing Your 2001 Massachusetts Income Taxes*; a quarterly newsletter, the *Taxpayer Advisory Bulletin*, with updates on legislative, legal and Departmental decisions; and public written statements, such as Regulations, Technical Information Releases (TIRs), Directives and Letter Rulings.

Where to get forms and publications



During the income tax filing season, you can pick up Massachusetts personal income tax forms in many convenient locations, including post offices, libraries, and major city or town halls; any DOR office listed on this page; or 16 IRS district offices across the state.



To obtain Massachusetts forms and publications by phone, call the Department's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089. Please note that many forms and publications are available 24 hours a day by calling the Department's automated forms request system at the numbers listed above.



Many Massachusetts tax forms and publications are available via the DOR website. The address for the Department's website is www.state.ma.us/dor.



Certain forms and publications can be obtained through DOR's Fax on Demand system. For a complete Fax on Demand menu, please call (617) 887-1900 using the handset and the keypad on your fax machine.

For general tax information

Please call (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089. These main information lines can provide assistance with:

- | | | |
|-------------------------|---------------------------|-------------------------|
| ▸ abatements | ▸ corporate trusts | ▸ partnerships |
| ▸ bills and payments | ▸ estate taxes | ▸ personal income taxes |
| ▸ business registration | ▸ estimated taxes | ▸ refunds |
| ▸ business taxes | ▸ fiduciary taxes | ▸ withholding |
| ▸ corporate excise | ▸ nonresident information | |

For help in one of the following specific areas

Please call the number listed below.

- | | |
|--|--|
| ▸ Certificates of Good Standing (617) 887-6550 | ▸ Installment sales (617) 887-6950 |
| ▸ Teletype (TTY) (617) 887-6140 | ▸ Small Business Workshop (617) 887-6400 |
- Vision-impaired taxpayers are welcome to make an appointment at any DOR office listed on this page to receive assistance in preparing their tax forms.
- Upon request, this publication is available in an alternative format.

To report allegations of suspected misconduct or impropriety involving Department of Revenue employees, please call the Inspectional Services Division's Integrity Hot Line at 1-800-568-0085 or write to PO Box 6040, Boston, MA 02114.

Massachusetts

Department of

Revenue

PO Box 7011

Boston, MA 02204

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Dear Taxpayer,

The Massachusetts Department of Revenue's website, www.mass.gov/dor is a comprehensive resource, providing businesses with the information needed to meet their tax obligations and other business requirements, 24 hours a day, seven days a week.

At www.mass.gov/dor, business owners can register as employers or vendors (or update their records with DOR), report newly hired employees, file meals and room occupancy taxes and make corporate quarterly income tax payments online. Businesses will also find fill-in tax forms where information can be entered online and then printed out for filing, and free software for filing and paying withholding, sales and use taxes via personal computer. Also available are Massachusetts tax forms, helpful publications, and links to unemployment insurance, workers' compensation, and other business-related information.

The site also provides information on the Department's Small Business Workshops. Offered regularly at various locations across the Commonwealth, these free workshops cover numerous topics of importance to new businesses, including registration, income tax withholding, estimated taxes, filing deadlines, sales, use and meals taxes, new hire reporting, certificates and exemptions.

As part of our continuing effort to make tax compliance easier, the Massachusetts corporate excise tax forms have recently been consolidated for use by both domestic and foreign corporations. The new forms include registration areas with domestic and foreign check-off boxes, and Schedule A has been revised.

For further information, please visit www.mass.gov/dor or call the Department's Customer Service Bureau at (617) 887-MDOR or toll-free in Massachusetts at (800) 392-6089.

Sincerely,



Bernard F. Crowley, Jr.
Acting Commissioner